



Jarir Marketing Co. (Jarir)

KSA Consumer Sector | 1Q 2015 Preliminary Results | April 8, 2015

1Q15 review: A strong operational beat yet again; Maintain Buy

1Q15 earnings beat SFC/consensus from stronger than expected electronic sales: Jarir reported 1Q15 headline net profit of SAR247m (+23% yoy, +20% qoq) that has beaten SFC/consensus estimate by c.9%/8%. While revenues of SAR1,910m (+37% yoy, +21% qoq) have beaten our estimate by c.23%, gross profit/EBITDA/EBIT was c.6%/9%/9% higher than our forecasts. In our view, the strong yoy growth as well as the earnings beat could be primarily attributed to higher sales across all categories, especially electronic items, which was boosted by additional 2 months of basic salary payment to Saudi government employees (and in some cases to employees of private companies as well). While EBIT margin came in softer at 12.7% (vs. SFC estimate of 14.3%), this in our view is not a cause of concern and is largely due to increased proportion of electronic items (from bonus payment) in the sales mix that tend to generate lower margin (electronic gross margin c.10-12% vs. office/school supplies and books c.30-35%) vs. other traditional products. The store count stood unchanged at 36 in 1Q15 as the company did not open any new store due to construction delays.

New showrooms hold key while an underpenetrated market, strong B/S and FCF create a fertile platform for expansion: We see Jarir as a nimble footed leader (c.50% market share in tablets/laptops, c.10–15% in smartphones, c.20% in office supplies) that boasts of increasing store yields and solid returns (2014 RoE c.55%) from an asset light business model (leasehold stores c.83%). Furthermore, while KSA's fast growing (2009–14 CAGR c.8%) electronics retail market is underpenetrated by big-box retailers, Jarir's solid B/S and strong FCF mean a fertile platform for expansion. All in all, while we expect solid 2014–16E earnings CAGR of c.15%, investors should closely monitor progress of new showrooms (SFC 4–5/year vs. management guidance 5–6) as that would account for c.75% of earnings growth, while remaining 25% should originate from improving yields in existing ones.

Trades at 2015E P/E of 23.2x; Maintain Buy: After a c.17% increase in stock price since 2015 beginning (Tadawul Retail c.5%, Tadawul c.5%), Jarir trades at 2015E P/E of 23.2x (vs. KSA retail 21.3x, EM peers 21.2x, DM peers 19.3x), which we think is justified, considering Jarir's market position, execution track record, and growth prospects. We reiterate our Buy rating on Jarir with an unchanged SAR 255/share target price and Jarir remains one of our top 5 picks in the KSA consumer sector. Key downside risks include 1/slower-than-expected new store openings, 2/lack of new product launches, 3/margin compression due to increasing competition from other big box/value retailers, 4/lack of suitable real estate space for expansion, and 5/non-renewal of leases of highly profitable stores.

SAR mn	1Q15A	1Q15E	% diff	Cons*	% dev	4Q14	% qoq	1Q14	% yoy	2015E	2016E
Revenues	1,910	1,558	23%	1,668	14%	1,584	21%	1,399	37%	6,542	7,540
Gross Profit	284	267	6%	Na	Na	240	18%	235	21%	1,001	1,155
EBITDA (est)	251	231	9%	232	8%	202	24%	209	20%	851	980
EBITDA margin	13.1%	14.8%		13.9%		12.7%		14.9%		13.0%	13.0%
EBIT	243	223	9%	224	8%	193	26%	200	22%	818	944
EBIT margin	12.7%	14.3%		13.4%		12.2%		14.3%		12.5%	12.5%
Net Profit	247	226	9%	228	8%	206	20%	201	23%	837	961

Source: Company, Saudi Fransi Capital, * Bloomberg consensus

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Rating Summary

Recommendation	Buy
Target price (SAR)	255
Upside/ (downside)	18%

Stock Details

Closing price*	SAR	215.5
Market capitalization	SAR mn	19,395
Shares outstanding	Mn	90
52-Week High	SAR	221.0
52-Week Low	SAR	167.2
Price chg. (3 months)	%	25.2
EPS 2015E	SAR	9.29
Ticker (Reuters/ Bloomberg)	4190.SE	JARIR AB

*Price as of April 7, 2015

Key Shareholding (%)

Al Agil Family	45.0
Public/Others	55.0

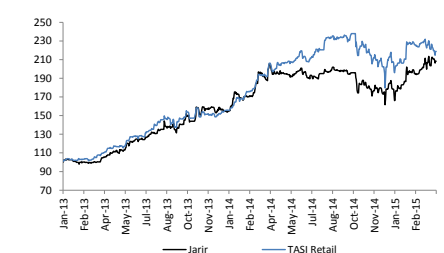
Source: Tadawul

Key Ratios

	2015E	2016E
P/E (x)	23.2	20.2
EV/EBITDA (x)	22.9	19.9
Dividend yield (%)	3.4	3.7

Source: Saudi Fransi Capital

Stock price movement vs. TASI



Source: Tadawul

Sector Coverage

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Recommendation Framework

BUY: The analyst recommends a BUY when our fair value estimate is at least 10% higher than the current share price.

HOLD: The analyst recommends a HOLD when our fair value estimate ranges within $\pm 10\%$ of the current share price.

SELL: The analyst recommends a SELL when our fair value estimate is lower by more than 10% from the current share price.

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